

FY 2011

FEDERAL, STATE AND LOCAL GOVERNMENTS

WORK PLAN



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FY 2011 FSLG Work Plan

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Executive Summary

The Office of Federal, State and Local Governments is responsible for Federal tax administration issues and customer service for over 105,000 government entity employers. FSLG's primary objective is to promote compliance with employment tax withholding/reporting and information reporting requirements by governmental units and their subordinate agencies. FSLG is also responsible for ensuring compliance with, and assisting in, the administration of FICA coverage agreements under the provisions of Section 218 of the Social Security Act.

In FY2011, FSLG will continue to maintain an effective balance between traditional compliance work and educational activities.

The Office of Federal, State and Local Governments (FSLG) supports the Internal Revenue Service (IRS) and the Tax Exempt and Government Entities (TE/GE) Division strategic goals:

- 1) Improve customer service to make voluntary compliance easier; and
- 2) Enforce the law to ensure everyone meets their obligation to pay taxes.

In support of these goals, FSLG has committed to the following work plan areas in FY 2011.

FSLG will increase the number of customers reached in outreach events by increasing the use of alternative methods of delivery, including webinars. FSLG plans to develop and deliver at least three webinars during FY 2011. General areas of focus for outreach during FY 2011 will be related to various specialty topics including Section 218 Agreements, Government Plans, IRC 3402(t), international issues including the U.S. Territories and new legislation related to Health Care.

In FY 2011, FSLG will slightly increase the number of compliance checks and examinations closures which is supported by the increased staffing brought on during FY 2009 and 2010. A key area of emphasis in our examination plan for FY 2011 is the National Research Program (NRP) Employment Tax Study. The NRP Program is a three year study of compliance levels related to employment tax returns which began in FY 2010 and will run through FY 2012. In addition, FSLG will expand its focus on international issues and related return and information report filings.

In FY 2011, FSLG will devote resources to projects to improve employee knowledge and our customer service level in several critical areas: international compliance, identification and development of fraud, the Section 218 arena and government plans.

Planning Process

OVERVIEW OF FSLG

FSLG continues to develop an annual comprehensive compliance plan involving managers, field Specialists and CPM staff. This compliance plan is incorporated into the FSLG Annual Work Plan. Responsibility for the development of the Annual Work Plan is vested with the Manager, Compliance and Program Management.

FSLG's interaction with its customer base affects the degree of compliance by government employers and their 24 million employees. These entities employ approximately 18% of the American workforce,¹ pay wages in excess of \$760 billion annually and pay employment taxes in excess of \$200 billion. In addition, governments own fixed assets in excess of \$8.7 trillion and purchase goods and services in excess of \$2.6 trillion, which is approximately 20% of the US economy.²

At the start of FY 2011, FSLG will have 92 field Specialists, including 9 FSLG Specialists assigned to the Federal Agency Group. In FY 2011, FSLG anticipates losing seven employees to retirement. Approximately 24 percent of FSLG Specialists are eligible to retire in FY 2011.

¹ Based upon U.S. Bureau of Labor Statistics; Table B-1. Employees on non-farm payrolls by industry sector and selected industry detail (in thousands) Plus active duty military personnel as published by the Office of the Secretary of Defense.

² Based upon data from the Bureau of Economic Analysis

METHODOLOGY

Trends, Issues and Problems (TIPs) were identified in the Strategic Business Plan for FY2011 at the time of its formulation. The FSLG office involved field specialists, managers and CPM staff in the development of the work plan.

The foundation for the formulation of the FY 2011 FSLG Work Plan is based on the TIP areas, but refined to specific issues through the analysis of IRS data, stakeholder input and employee input. These issues form the basis for the compliance activities to be undertaken in FY 2011. The major areas of emphasis are examinations, compliance checks and information reporting compliance.

The employment tax field in general, and the governmental sector in particular, have not been the subject of significant research activity by the Service. Governments generally file only employment tax and information returns. There are no additional returns to provide compliance indicators, thus classification avenues are limited. An additional complicating factor is the ability of governments to file “consolidated” employment tax returns, a process unavailable to any other group of employers in the country.

This lack of basic information has been considered in developing the FSLG compliance workload selection process. FSLG has considered anecdotal evidence, ratio analysis, information return filing indicators, customer contact data and results from past compliance contacts in developing examination plans for FY 2008-2011. FSLG is continually improving this process by:

- developing a formal workload selection plan to ensure consistency and impartiality in its examination process;
- establishing state folders that include state specific information (section 218 agreement, qualified retirement plan, section 403(b) plan, etc.), which are useful tools in workload selection;
- conducting a portion of its examinations based on market segments and compliance projects to determine compliance levels and identify significant issues in those segments; and
- continuing to analyze the data collected from closed compliance checks and examinations and utilizing the data to select workload and conduct future outreach activities.

WORK PLAN AREAS

FSLG will support the TE/GE Division major strategies and operating priorities for FY 2011. These strategies address key challenges FSLG faces in delivering top quality service to customers and productivity through a quality work environment. These include actions to:

- **Improve Voluntary Compliance:** FSLG will continue to use employee input, customer feedback and data analysis to secure a comprehensive knowledge of key compliance issues and causes of noncompliance. The information will be used to improve compliance within its customer base.
- **Meet Customer Needs:** FSLG will work with stakeholders and the Advisory Committee on Tax-exempt and Government Entities (ACT) to ascertain FSLG customers' needs, as well as design and deliver mutually agreeable remedies to identified compliance concerns and problems whenever possible. In addition, the FSLG Newsletter and educational products will be used to address compliance questions and issues. FSLG will continue to utilize webinars as a means for providing education on various tax issues.
- **Improve Organizational Performance:** FSLG will use balanced measures and analyze the results to effect operational enhancements to improve performance.
- **Improve Knowledge and Information Management:** FSLG will expand its gathering and use of data to fully develop tools which improve its abilities to identify, track and measure the impact of field compliance activities. It will continue to support the development and implementation of Reporting Compliance Case Management System (RCCMS) as the TE/GE work-center.
- **Continue to Address Federal Agency and Large Entity Compliance:** FSLG will continue examinations of Federal agencies and large government entities during FY2011.
- **Address Abusive Tax Avoidance Transactions and Tax Fraud:** FSLG will incorporate steps to identify customer participation in abusive schemes and fraud. Its efforts will include developing information for use in educational programs as well as providing guidance to its personnel.
- **Address Non-Compliance Related to International Issues and Activities:** FSLG will increase resources devoted to its international compliance program. This program includes outreach activities, as well as examinations of employment tax returns related to international issues.
- **Continue Work on Market Segment Compliance Projects:** FSLG will continue to address various compliance issues of specific market segments within state and local entities.
- **Build a Highly Qualified and Satisfied Work Force:** FSLG will continue to train its workforce to ensure that employees have the skills necessary to meet customer needs. It will continue its use of the employee survey to identify opportunities for improvements in employee satisfaction. It will

continue to involve managers and employees in addressing business and operational challenges by utilizing a problem solving group approach.

PRE-FILING EDUCATION AND ASSISTANCE

This section discusses pre-filing education and assistance, which includes customer education and outreach, stakeholder relationships and service coordination between FSLG and other functions.

Customer Education and Outreach

FSLG continues to address key areas of noncompliance through a combination of targeted outreach, development of new educational products and various field compliance activities.

FSLG recognizes the potential positive impact on taxpayer compliance resulting from providing customer education and outreach. Therefore, as it seeks new outreach partnering opportunities, FSLG is working to expand the use of alternative methods of delivery through webinars which will enable FSLG to reach more customers in FY 2011 due in part to increased use of alternative methods of delivery such as webinars. FSLG has planned to develop and deliver at least three webinars during FY 2011.

FSLG will continue to publish its semiannual newsletter, which is delivered via email to over 105,000 subscribers. The FSLG Newsletter serves as a useful means for providing information on current issues, such as tax law changes, abusive tax avoidance transactions (ATATs) and new published guidance. This will be an invaluable method of disseminating information to customers in 2011 on new legislation and related guidance.

Stakeholder Relationship

Social Security Administration

FSLG will continue to partner with the Social Security Administration (SSA) as a major external stakeholder while maintaining and increasing partnership activities with other stakeholders. In FY2007, FSLG worked with SSA to develop procedures for its employees to contact designated officials at SSA with regard to the interpretation of Section 218 Agreements during an examination. FSLG continues to monitor this process and implement improvements when necessary. FSLG will continue to partner with SSA in the development of important legal questions; continue to assess the 218 framework for each of the states to identify commonalities, differences and problem areas in an effort to improve our outreach and service delivery; and continue to collaborate with SSA to identify opportunities for improvement related to the 218 program and service delivery.

National Conference of State Social Security Administrators

The National Conference of State Social Security Administrators (NCSSSA) is an organization with which FSLG partners regularly in providing education and outreach to government entities. Additionally, FSLG specialists contact the State Social Security Administrator (SSSA) for their specific State if assistance with Section 218 Agreements and other State specific issues is needed. In FY2011, FSLG will continue to work with NCSSSA to develop Section 218 Agreement scenarios or case studies that will be used for both internal and external training. FSLG Specialists will be encouraged to partner with the appropriate SSSA when conducting outreach events.

Advisory Committee on Tax-Exempt Government Entities

The Advisory Committee on Tax-Exempt Government Entities (ACT) includes three members who represent government entities and work on projects related to FSLG issues. The ACT makes recommendations that improve compliance by government entities. For example, in FY2006, as recommended by the ACT, FSLG created a Public Employer Toolkit and made it available on the FSLG website to assist government entities in meeting their tax obligations. In FY 2007, the ACT made recommendations with regard to Forms 1042. A number of enhancements have been made to the Toolkit since it was originally created. In FY 2011, Director, FSLG will work with the ACT to complete and implement a self-compliance checklist that government entities may use to conduct compliance self-checks. This checklist will be added to FSLG's website upon completion.

Other Actions

FSLG will continue to use balanced measures to determine employee satisfaction, customer satisfaction and business results. Results of these measures will assist FSLG in analyzing our performance and ensuring that actions undertaken do not adversely impact any of the three areas and will assist FSLG in identifying areas in need of operational improvement in subsequent years.

The FSLG measures being used for employee satisfaction and business results are generally consistent with measures used by other functions. FSLG will continue use of the employee survey to identify opportunities for improvements in employee satisfaction. It will continue to involve managers and employees in improvement processes for FSLG. As described below, FSLG will continue to provide training to its workforce to ensure that employees have the skills necessary to meet the visions and goals of FSLG.

During FY 2011, FSLG will work with TE/GE Data Analysis Unit (DAU) to complete a work study. The results of this work study will help FSLG identify

where government entities of different sizes are located, identify any areas in which FSLG has conducted a limited number of compliance activities, etc. This study will help FSLG identify future hiring needs as well as other demographic trends that can be used to more efficiently provide services to taxpayers and more effectively address compliance issues.

COMPLIANCE SERVICES

This area represents the resources devoted to Field Compliance Services, including compliance checks, return examinations, research projects and related support work.

Workload Selection

FSLG will continue to refine the workload selection criteria used in prior years. In addition, FSLG will partner with Exempt Organizations (EO) in situations where the government entity is also an exempt organization (e.g., community colleges, charter schools, hospitals) and Employee Plans (EP) where the government entity is participating in a retirement plan or similar arrangement.

Workload selection will be monitored to ensure that key areas identified through environmental scanning, research and other means are addressed, and that the actions being assigned represent the optimal approach to the identified issue. FSLG will continue to undertake compliance checks as a mechanism to provide broad-based compliance coverage, to identify customer needs and to foster self-correction. In appropriate situations, compliance checks may be converted to examinations with the approval of the group manager.

Compliance Plan

FSLG examinations of books and records relating to the determination of a tax liability will generally address employment tax issues, Social Security Act Section 218 compliance issues, information return issues, FICA replacement plan issues, Abusive Tax Avoidance Transactions and other priority work.

FSLG generally conducts compliance checks on smaller entities (annual payroll less than \$10 million) to determine compliance with their employment tax and information return reporting obligations. Compliance checks do not include review of the books and records of the taxpayer and are designed to foster self-compliance. If the specialist determines that the government entity is not in compliance, the case is converted into an examination or an advisory letter is issued to the government entity depending upon the extent of non-compliance.

FSLG will continue the two strategic initiatives started in FY 2005: the Federal Agency Initiative and the Large Entity Initiative.

FY2010 through 2012, FSLG will devote a significant amount of its examination resources to the Employment Tax National Research Program (ETNRP). ETNRP is a three-year project designed to develop data to help identify non-compliance or sources of the tax gap related to employment taxes. The project was developed during FY 2009 as part of an IRS-wide effort. Due to the

potential impact of these cases, some of which are large agency cases, FSLG will limit other projects to small compliance projects in FY 2011.

In FY 2011, FSLG will increase resources devoted to its international compliance program. This program includes outreach activities, as well as examinations of employment tax returns related to international issues including Form 1042 audits of colleges/universities, Form 1042 non-filers, organizations not properly complying with employment taxes based upon visa or resident alien status, and compliance activities in the U.S. Possessions.

FSLG supports the IRS wide effort to identify and eliminate abusive tax avoidance transactions and fraud. It will continue with its efforts to identify customer participation in abusive schemes and fraud. The FSLG customer base is primarily tax-neutral enablers of some schemes. Its efforts will include developing information for use in educational programs as well as providing guidance to its compliance personnel.

Numerous entities have contacted FSLG to resolve inadvertent errors in filing or payment compliance in prior years. In such instances, the issues have been resolved through closing agreements between the entity and FSLG. The number of voluntary closing agreements has increased each year. FSLG encourages government entities to regularly review their filing and payment compliance and, if inadvertent errors have occurred, to contact FSLG.

In FY 2011, FSLG will implement a self-compliance checksheet created in cooperation with ACT that government entities may use to conduct self-checks. The questionnaire will be added to FSLG's website upon completion.

Research

FSLG will continue to work on perfecting the customer database. Over the last several years, FSLG worked with the Census Bureau database of government entities to identify its customers and substantially increase the number of government entities listed on the IRS Business Master File. In FY 2011, FSLG will continue to identify additional entities which will be coded and added to the IRS Business Master File database.

TRAINING

FSLG will build a highly qualified work force by conducting training that meets the technical needs of FSLG employees, including the following major areas:

Continuing Professional Education is planned for all FSLG Specialists, analysts, managers and support staff. This training will address technical topics, emerging issues and work process changes.

FSLG will conduct new hire training that includes three phases that cover use of RCCMS, employment tax and audit techniques, as well as taxation rules that are unique to governmental employers such as FICA for government employees under Section 218 Agreements and Mandatory FICA for government employees not covered under Section 218 Agreements.

FSLG will conduct additional specialty training as necessary this year to support other key areas of focus including, International, SSA Section 218 and Government Plans.